TESTIMONY OF CURTIS GRIFFITH
CHAIRMAN, CITY BANK

I appreciate the opportunity to testify today before the committee and I especially appreciate the members taking time to travel here to better understand the challenging situation facing producers in our area.

City Bank is one of the largest lenders for crop production in Texas. The success of our institution has been driven largely by the ability of producers to repay each year's operating loans. The uncertainty of our weather, the increasing volatility of the market price of our major crops and the continuing squeeze of producers' profit margins has made this lending more challenging each year. In addition to my duties at the bank, I am an active farmer and know first-hand how hard it is to make ends meet in today's agricultural economy.

Today, I will direct my comments to both the commodity programs and the crop insurance program. First, I want to commend the members and staff of this committee that helped to craft the Farm Security and Rural Investment Act of 2002. The provisions of this program do provide a good safety net for producers in times of ruinously low prices while significantly reducing the costs to taxpayers in times of better prices. As a lender, we can better predict the amount of revenue that will be available for loan repayment and be in position to adequately fund good production practices.

I know that the current program is under attack from those who believe that payment limits are set too high. As a banker and a producer of irrigated cotton in West Texas, I can assure you that if more stringent limits are imposed, the program will be unworkable for a significant portion of producers in this area. Cotton is an expensive crop to produce and the necessary equipment costs from ten to even fifty times what it cost when I began farming. Because of these costs, a workable farm program for cotton must offer much higher per acre support levels than for some other crops. Several of our bank customers are impacted by the current limits and these are not corporate-owned mega-farms depicted by some program critics. They are family-owned farms that have been well-managed in prior years and grew by both adding land and, more importantly, improving production practices on the land for better yields and better conservation of land and water. Even with the best management, these producers are not "getting rich." In many if not most cases, the wife is working at a non-farm job and often the husband is also working at some part-time or seasonal job to bring in extra income. I cannot emphasize enough that a significant restructuring of payment limitations will not just reduce the profitability of these family farms, it will probably put them out of business.

I also know that the entire U.S. farm program is under attack by foreign interests and others who believe that it is morally wrong for our government to subsidize crop production in this country while low commodity prices in developing countries make life difficult for their farmers. The cotton program has recently been a favorite target for some in the media. Those who hold this view are seeking an overly-simplistic solution to a very complex problem. They believe that without subsidies, U.S. producers would significantly reduce the amount produced in this country, other major producing countries would not increase production in response to the hoped-for price increase and the state-controlled marketing organizations in the poorer nations would pass the price increase on to their producers. History indicates that none of these are likely outcomes. Perhaps in a perfect world no government would pay subsidies to producers of any product or restrict in any manner the importation of any product from any other country. We obviously do not live in a perfect world. I believe that a strong farm economy is necessary for both the economic well-being of this country and for its long-term security. We must not be apologetic for our efforts to maintain that strength.

The crop insurance program is a very important component of farm policy for our area. Today's production practices require the producer to invest a substantial part of his operating budget in fertilizer, herbicides, irrigation and seed prior to his crop even emerging from the ground. If harsh weather causes the loss of that crop during the first few weeks of its existence, the producer will have a major financial loss with little or no opportunity to recoup it with a secondary crop. As a lender, we calculate each year how much net proceeds a producer will receive in the event of a total crop loss and rely very heavily on that number plus the producer's expected program payments when deciding how much we are willing to lend. Without this insurance, I assure you that we would greatly reduce the total amount of our farm lending at City Bank.

I would like to address three issues regarding crop insurance that are important to those of us who farm in West Texas. First, we need some mechanism to allow a producer to insure based upon cost of production. Several of our non-irrigated producers have been trapped in a downward spiral after several years of drought or other weather-related losses. They can only insure their crop at such a low dollar amount that we, as a lender, will not loan them enough money to make their best attempt at producing a crop and therefore, even when they have good weather, their crops will not yield enough to bring up their production average enough to materially improve the amount of insurance they can obtain the following year. I am not asking for the ability to insure a profit for a producer, but I believe that many producers would purchase insurance, even at a greater cost, that would allow them to obtain enough financing to at least try to make a crop.

Second, there is concern about how RMA will treat insurance of crops planted after the loss of the primary crop. The Agricultural Risk Protection Act of 2000 requires that the loss payment on a first crop be limited to 35 percent of the total indemnity when there is a loss on a second crop on the same acreage. In most cases, the producer will be required to purchase insurance on the second crop, either by his lending institution or because of agreements with FSA related to receipt of prior disaster payments. RMA has stated that if the producer is not "paid an indemnity" on the second crop, there is no reduction of coverage on the first crop loss and that the producer can choose to forgo an indemnity payment or withdraw a claim for second crop acreage. This statement is based on RMA's interpretation of the intent of ARPA, and I would encourage the committee to support this interpretation and to incorporate it into any new legislation that may develop. Otherwise, the attempt to prevent the receipt of full indemnity for two crops on the same acreage in the same year could have the unintended consequence of so drastically reducing the indemnity actually received that the producer is left in a worse position than if he had never insured his crops at all.

Finally, I urge the committee to work to maintain and strengthen the current system of private delivery of crop insurance with USDA oversight and support. If commissions paid to the private companies are substantially reduced in the next Standard Reinsurance Agreement, we face the risk of additional financial failures among those companies and a weakening of their efforts to reduce fraud and abuse by unscrupulous producers. We should all be working to increase the number of producers nationwide who participate in crop insurance. The perception that some providers are financially-troubled and the perception that a small group of producers regularly abuse the system are both serious negatives in that effort.

Thank you again for your time and attention.